



Sustainable Building Gains Ground in CRE

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By Allison Landa, News Editor

Is building green the path to greater profits? That's the question developers continue to ask themselves when evaluating whether to go after Leadership in Energy and Environmental Design certification. Increasingly, the answer is yes.

According to the U.S. Green Building Council, U.S. buildings account for 72 percent of energy consumption, 39 percent of energy use, 38 percent of all carbon dioxide emissions, 40 percent of raw materials use, 30 percent of waste output and 14 percent of potable water consumption. The USGBC maintains that benefits of green building include enhanced ecosystems and biodiversity, improved air and water quality, and the reduction of solid waste.

But What About the Bottom Line?

The USGBC lists economic benefits of green building including reduced operating costs, enhanced asset value and products, improved employee productivity and satisfaction, and an optimized lifecycle economic performance. "People prefer doing business with companies that are actually looking to do the right thing," Walters Group president & founder Ed Walters told CPE. "Wal-Mart was just named the greenest company out there, which is a surprise to anybody, so Wal-Mart definitely did the demographics and studies and found that people are slowly but surely demanding some responsibility from these large companies."

Since the ultimate goal is to make all buildings zero energy—meaning they produce as much energy as they use—by the year 2050, Walters believes that eventually real estate players will not have a choice when it comes to building in a sustainable manner. Most are seeking silver LEED certification, or the third highest level, he noted. However, he said that when it comes to his own company, sustainable building is less about a particular set of criteria and more about trying to produce the best possible construction.

"We just take a different approach," he said. "We don't actually set out to hit certain criteria; we go through the whole process and try to do the best we can just to build the best product within our budget."

And, he added, companies are not simply going green out of the goodness of their hearts. Rather, it is a calculated financial decision to figure out whether the savings will be worth the cost. Steven Core, COO of property service firm RiverRock Real Estate Group Inc., finds himself making that calculation with every building his company oversees. Sometimes it is viable; sometimes it is not.

“Not all of our buildings can obtain certification, but all of them can operate in a sustainable manner,” he told *CPE*. “Through the use of smart irrigation systems, refuse and recycle monitoring, energy management systems, tenant education, policy modification and so on, we have seen substantial decreases in operation expenses. This drives value to the bottom line, keeps our properties competitive in the market and contributes to the health of the environment.”

While Core has not seen rental rates impacted by LEED, he has noted an increase in opportunity as a result of building green. RiverRock itself currently has several leasing opportunities pending where sustainability or LEED certification at some level was a qualifying criteria.

“When there are two similar buildings competing for the same tenant, a sustainable or LEED-certified property will generally have the advantage,” he said.

More interest in LEED is showing on the development side, according to Mar Ventures Inc. director of acquisitions Lionel Uhry. Most developers he knows are aware of LEED certification and often explicitly set certification as a project goal. Uhry believes that those who seek certification will go after the highest level attainable within their budget constraints as well as overall design and development objectives. Of course, this comes at a price.

“There are some costs associated with designing and building a project that will receive a high LEED rating,” he said. “Some of these costs can be offset by quantifiable savings in utility consumption, but there are also added benefits from LEED certification that are not as easily quantifiable, such as market perception, public reception and tenant retention.”

Holliday Fenoglio Fowler L.P. associate director Gail Wisner says the type of product will dictate whether or not to seek LEED certification. She has definitely seen an uptick among new Class A office construction, and has heard that to many it is synonymous with LEED, though like Core, she has not noticed LEED impacting rental rates. (Other property classes are not attracting nearly as much enthusiasm about building green—at least, not yet, she said.)

“Because vacancy rates in the office sector are upwards of 20 percent in most major markets, tenants are not prepared to pay a premium for LEED right now,” she said. “Therefore, owners are focused on just trying to fill the space rather than on green initiatives.”

Among Class B and C office properties, Wisner said, certification is not a point of interest. The same goes for the multi-family sector, which most experts see as lagging the curve. But, she explained, there are several incentives for Class A office properties that may make certification more worthwhile than for other property classes. These include tax and insurance discounts.

Additionally, Wisner said the USGBC heavily markets in the office sector but not so much in others. “If anything,” she said, “it’s Class A office.”

LEED certification may not be widespread, but Wisner believes that is about to change, predicting that certifications will pick up in 2011 and prove very market-specific, with appearances in Chicago, Boston, Washington, D.C., and San Francisco.

This is good news to Walters. “What it comes down to is changing how you approach your business, how you build, how you think about things,” he said. “People are becoming aware that we can’t be doing things the way we’ve been doing them for the last hundred years. It’s time. We need to be more responsible.”

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